



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. October 25, 2005. The following members were present:

Jody B. Olson
J. Kirk Sullivan
Pamela I. Ahrens
Clifford T. Hayes
Jeff Cilek

Executive Director Alan H. Winkle, Investment Officer Richelle Sugiyama, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon
Bruce Reeder
Dennis Fitzpatrick
Cody Barney
Parke Blundon
Vickie Burnet
Mike Boren
Charlie Brown
Karen Steffen
Robert Schmidt
R. Scot Haug
Lucinda Smith

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
IPEA
Clearwater
REIA
Milliman
Milliman
Post Falls Police Department
Mellon

Mark Keleher,
Larry Johnson
Brent Nye
Doug Bates
Jim Shakelford

Mellon Transition Management
EFIB
Boise Schools
Clearwater
IEA

MINUTES

Approval of the Minutes: By motion duly made by Trustee Hayes and seconded by Trustee Cilek, the Board unanimously approved the minutes of the September 23, 2005 meeting. In a separate motion made by Trustee Hayes and seconded by Trustee Ahrens, the Board unanimously approved the minutes of the September 23, 2005 Investment Sub-Committee Meeting.

PORTFOLIO

Monthly Portfolio Update: CIO Robert Maynard was unable to attend this meeting. Investment Officer Richelle Sugiyama reviewed the updated PERSI Investment Report dated October 23, 2005. That report shows the current value of the fund as \$8,730,298,074 with a change in market value for the fiscal year of \$168,377,322, a 1.7% return.

Mr. Maynard had prepared a comment for the report:

There is a continued uncertainty about the length and magnitude of the increases in the short term interest rates by the Federal Reserve, although most believe that the Fed will once again raise interest rates at its next meeting. Both bonds and equities continue to suffer as interest rates have risen across the board in line with the Fed's indications of continued interest rate increases and growing concerns about inflation. October continues to be a disappointing month for the fund, giving back all of the gains generated during the month of September and more. The fund has lost 3.1% month-to-date, still up 1.7% for the fiscal year-to-date. The Pacific region and the Emerging Markets continue their streak as the best-performing capital markets while fixed income and domestic equity markets struggle.

The emerging markets managers have gained some ground since our last report, although not back to its height in early October. Genesis, Bernstein Emerging and Zesiger continue to be the top-performing managers in absolute returns. In relative terms, Zesiger, Donald Smith and Peregrine are the best performers against their respective benchmarks while TCW and Mondrian are the worst.

Of PERSI's major strategic bets, global equity, private equity, and emerging markets continue to add value to the total fund's strategic benchmark (55% US equities, 15% international and 30% fixed) and a few policies are hurting. Overall, the total fund remains ahead of the strategic benchmark for the fiscal year by approximately 1.5%.

Ms. Sugiyama reviewed the report, answering questions from the Trustees. While several pages of the report provide overviews of performance, pages are also provided on each of the managers including their returns, their performance attribution and strategy comments and PERSI's summary of the manager style and how their compliance with their specific management guidelines are tracked.

Appointment of a new Chairman of the Federal Reserve Board, Ben Bernanke, has been announced and investors are watching to see what effect this will have on policies.

In response to a question from the Chair, Ms. Sugiyama explained that our fiscal accountant reconciles market value of the investments each month, which because of timing issues may not be quite the same as in our monthly investment report. Trustee Cilek asked about the Account Turnover section of manager reports. These track client accounts that are gained or lost during the reporting period, as well as total market value of those accounts. Trustee Hayes asked the meaning of "underweighting" and "overweighting" in that report. Ms. Sugiyama said it is relative to their benchmark and provided further explanation of the terms.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Doug Bates said there is uncertainty in the markets, but it still seems to be doing well with lots of fuel in the marketplace. Dennis Fitzpatrick added that the flattening of the yield curve concerns him, especially with the possibility of an inverted yield curve in the next six months. He believes 2006 and 2007 could be challenging years for economic growth. He is pleased with the selection of the new Fed Chairman who supports more transparency in the markets. Mountain Pacific said the slowing of the economy is a positive thing which hopefully will encourage the Federal Reserve Board to stop raising interest rates. They look for another increase in those rates and are optimistic on US stocks over the next five years.

Chairman Olson welcomed Larry Johnson, the new Manager of Investments of the Endowment Fund Investment Board to the meeting.

EXECUTIVE DIRECTOR

COLA Discussion and Decision: Executive Director Winkle had provided a memorandum dated October 19, 2005, with background information on the Cost of Living Adjustment (COLA) for PERSI retirees. By motion duly made by Trustee Ahrens and seconded by Trustee Sullivan, the Board unanimously approved the maximum allowable retiree COLA of 3.6%.

PERSI and FRF Final Actuarial Valuations: Copies of the final valuation had been previously provided to the Trustees, who had also reviewed the preliminary valuations at the September meeting. Table 1 provided a concise view of the year. The actuary assumes 7.75% asset growth and when we earn more than that we can both provide a retiree COLA and reduce the unfunded liability. Results at July 1, 2005, after providing the 3.6% retiree COLA show an amortization period of 7.3 years and a funded ratio of 93.2%.

The FRF report showed that we are ahead of the expected schedule of funding of this closed system with a 73.5% funded ratio and a 9.0 year amortization period. Their COLA is not determined by the Board, but is in Idaho Statute. It is determined by the growth of the average salary for active firefighters in the state of Idaho. This year that amount is 4.36%.

Other Business: At the September meeting, Chairman Olson had inquired about how PERSI administrative costs compare to other systems. Mr. Winkle had provided a memorandum with comparisons from the Cost Effectiveness Measurement report to the Board, showing these measurements. While PERSI's costs are close to the peer median, they are slightly higher. These can be attributed to the diverse nature of our member employers who use different computer programs and who submit their data at every payroll to PERSI. This allows 401(k) contributions to be credited in a timely fashion and provides more accurate, useable data for benefit calculations.

Mr. Winkle had also provided information to the Trustees regarding a member request for a self-directed brokerage window. The Board will continue to monitor the idea of brokerage windows and its expenses as well as the member support for the window and the level of investment knowledge required for such an option.

Status Report: The Business Process Re-Engineering Project is proceeding and "go forward" scanning of paper documents we receive in the normal course of business has begun. Conversion of existing microfilm to an imaged status is ahead of schedule.

The Long Term Care program for the State of Idaho should be in place and be offered to State employees and retirees by the first of 2006. A major insurance company has been retained to administer the system.

Legislators continue their review of the Retiree Return to Work issue and PERSI staff will provide draft documents to implement their instructions.

Other projects include educating staff on Medicare part D so retiree questions can be directed appropriately, working on the Choice Plan Recordkeeping contract, Board indemnification research, and issuing a request for proposals for the disability claims adjudication contract.

LEGAL:

Temporary Rule Adoption: Deputy Attorney General Goodsell explained the need to adopt rules in order to meet publishing deadlines. By motion duly made by Trustee Ahrens and seconded by Trustee Hayes, the Board unanimously approved the publishing of temporary rules as set forth in the Notice of Temporary Rulemaking, docket number 59-0103-0601, to implement the board's previous decision to delay contribution rate increases, and that a Notice of Rescission of Temporary Rule be published rescinding the current temporary rule in docket number 59-0103-0501, effective February 1, 2006.

Pending Retirement Rules: By motion duly made by Trustee Ahrens and seconded by Trustee Hayes, the Board unanimously adopted the pending rules, Docket 59-0106-0501 as set forth in the notice, conditional on no comments being submitted by the October 26, 2005, deadline.

FISCAL

Fiscal Update/ Travel, Administrative, Portfolio Reports: Financial Officer James Monroe reviewed his October 20, 2005, memorandum to the Board. The Out-of-State Travel Report and the Administrative and Portfolio reports had been provided previously to the Board. The travel report includes the entire cost of the trips, not just registration expenses. Four vacant positions show on the Administrative Report, but hiring for those positions should begin after the first of the year. As imaging and workflow are implemented, our actual costs are expected to more closely match the expense projections.

FY 2005 Audit Discussion and Adoption: Because of a date mix-up, Mark Stevens from the Salt Lake office of Deloitte and Touche was not present. Ash Cockcroft from their Boise office said their audit found no significant judgments or adjustments and that the concerns noted in their comments were addressed before the audit ended. Acting as the Board Audit Committee, Chairman Olson had met with the auditors both with staff and independent of staff earlier in the month. Disclosures required by GASB have been added to the financial statements and the report. By motion duly made by Trustee Sullivan and seconded by Trustee Ahrens, the Board unanimously approved the annual audit of the PERSI financial statements.

FUTURE MEETINGS:

By motion duly made by Trustee Sullivan and seconded by Trustee Cilek, the Board unanimously approved the following dates for the regular 2006 Board meeting dates:

January 24, 2006 8:30 a.m., Boise - PERSI office
February 28, 2006, 8:30 a.m., Boise - PERSI office
March 28, 2006, 8:30 a.m., Boise - PERSI office
April 25, 2006, 8:30 a.m., Boise - PERSI office
May 23, 2006, 8:30 a.m., Post Falls – Location To Be Determined
NO JUNE MEETING
July 25, 2006, 8:30 a.m., Boise - PERSI office
August 22, 2006, 8:30 a.m., Boise – PERSI office
September 26, 2006, 8:30 a.m., Boise - PERSI office
October 24, 2006, 8:30 a.m., Boise - PERSI office
COMBINE NOVEMBER MEETING WITH DECEMBER
Dec. 5, 2006, 8:30 a.m., Boise - PERSI office

The Board will hold their final regular meeting of 2005 on Wednesday, December 7 at 8:30 a.m. in the Boise PERSI office.

Adjournment: At 10:07 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director